



July 1, 1996

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW Room 222
Washington, DC 20554

Dear Mr. Caton:

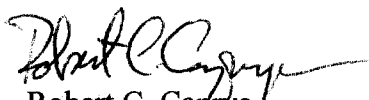
DOCKET FILE COPY ORIGINAL

Enclosed is an original and fourteen copies of the comments of GVNW Inc./Management in response to the Commission's Notice of Proposed Rulemaking in CC Docket 96-128 (Reference FCC 96-254).

Also enclosed is one copy of our comments to be stamped and returned in the enclosed self addressed stamped envelope.

Any questions regarding this filing may be directed to me at (503) 624-7075.

Sincerely,


Robert C. Carrey
Consulting Manager

cc: International Transcription Service
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Encl.

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**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Implementation of the)	CC Docket No. 96-128
Pay Telephone Reclassification)	
and Compensation Provisions of the)	
Telecommunications Act of 1996)	

COMMENTS OF GVNW INC./MANAGEMENT

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SUMMARY

GVNW is a consulting firm representing small independent local exchange carriers (SLECs) from a number of states. Issues of major concern upon which we comment include the following:

- The establishment of a public interest payphone program which would ensure payphone availability throughout the nation, not solely in areas where traffic and market demographics make paystation services profitable. The availability of public interest payphones is consistent with the universal service goals of the Act.
- The new rules for interconnection with Private Payphone Owners (PPOs) must be flexible, recognizing the diversity in the network today and the technical difficulties with delivering COE based payphone services with different types of COE and PPO payphone requirements. The per call compensation rules must account for these basic differences and provide alternatives and/or simplified procedures for making the compensation plan operate.
- The process of removing payphones from regulated accounts will necessarily be dependent on how public interest payphones are going to be handled. If states are given the opportunity to develop a public interest payphone policy and program, some payphones would remain under a subsidized regulatory program.
- A decline in provisioning of payphones by SLECs will occur if and upon removal of payphones from access cost recovery. The payphones in service today for many small rural LECs do not pay for themselves through traffic and usage. Yet many of these

communities would be seriously affected if LECs wholesale removed all of these unprofitable instruments. The FCC must exercise care in striking the correct balance between the availability of public interest payphones and the elimination of subsidies in cost recovery for payphone investments.

- The FCC recognizes the customer benefits of fair competition in payphone markets. GVNW agrees that the 1996 Act and a number of the current FCC proceedings underway to implement the Act are guided by the overall policy of promoting competition. We also believe that customer confusion, frustration and abuse may have resulted in the past where competition has been introduced to specific sectors of the industry, e.g., the industry's experience with Alternative Operator Services. Even now, 12 years since divestiture many telephone customers still do not understand the basic structure of the industry and the multiplicity of service providers that are at their disposal. The rules of this docket should not lead to market confusion for customers of payphone services.

COMMENTS

GVNW Inc./Management (GVNW) is a management consulting firm representing small local exchange companies (SLECs). In response to the Commission's Notice of Proposed Rule Making (NPRM) in the above referenced docket, GVNW respectfully submits the following comments.

These comments are made from the point of view of the small LEC. These companies generally serve rural areas. Some are high cost companies which receive high cost support and other subsidies to maintain reasonable rates. Typically, these companies serve areas where there is a high percentage of residential customers. Though as is the case for most LECs, a large percentage of their revenue comes from business customers. SLEC provisioning of payphones in some cases is for reasons of public benefits and access to telecommunications and not a profit motive. The NPRM appropriately recognizes the need for public interest payphones and the fact that these phones often suffer more incidents of vandalism, cost more to maintain, and do not generate adequate revenue to cover the cost associated with them.

Competition in provisioning of payphones will not develop in many of the areas served by SLECs and as such removal or revision of the cost recovery rules for investment in payphones will cause changes to SLECs payphone investments and service availability. When CPE was deregulated in the early 80's, many SLECs entering that nonregulated business quickly discovered that they were not going to make a lot of money selling

terminal equipment. The availability of CPE at major retailers created competition that led to smaller margins and market share of the formerly captive end user customers. Most SLECs do sell CPE today as “full service telecommunications companies” but that line of business is not significant to many of the SLECs involved with it. Payphone provisioning will be affected the same way upon deregulation. SLECs will provide payphone service as part of a full service commitment, but this will not represent a significant part of their business.

We urge the FCC to develop rules that balance the public interest needs for many SLEC serving areas and the operation of fully competitive payphone services which deliver the benefits of competition.

PER CALL COMPENSATION

GVNW agrees that PPOs deserve fair compensation for all completed calls. Determining the definition of “fair compensation” is a difficult issue. This issue relates to pricing and costing approaches for payphones. In some states payphones have been deregulated totally. Setting national guidelines for local coin rates will preempt many states’ handling of payphone rates and competition issues. We believe that the states should be presented with national guidelines and left with the authority to direct and review payphone rates within their state. State commissions are better positioned to handle the transition from the current state situation to the desired competitive environment. IntraLATA policies and structures also vary by state. The FCC should limit its role to prescribing general guidelines for payphone policy and allow the states discretion on

implementation of the directives. The FCC may periodically monitor state progress toward meeting the goals of the guidelines created in this docket.

GVNW supports the general principle of minimizing payphone transaction costs for the caller and the industry. As competitive pricing on payphones replaces regulated rates, the end users should be charged a competitive, market rate for local usage of payphones.

Limiting compensation methods to one for dial-around calls may not provide adequate flexibility for all PPOs. Administrative simplicity should be a goal in the development of the processes and mechanisms that will ensure per-call compensation.

Per call tracking for billing purposes provided by the IXC's must be verifiable. As PPOs and LECs get experience with the interconnection arrangements for payphones application a new tracking systems will develop as a result of contract (or tariff). The tracking problems discussed in the NPRM¹, represent a significant industry compensation issue which needs close evaluation. Technology-based solutions to the tracking problems will hopefully develop quickly so possible redundancy in current verification approaches can be eliminated.

We believe that requiring incumbent LECs to report quarterly on payphones in service to IXC's is too costly and administratively burdensome. The SLEC in many cases will be

¹ NPRM at Para. 29-31

unaware of a B1 line's usage. A quarterly reporting requirement is not justifiable from a cost/benefit perspective. Tracking and exchange of traffic and billing data will improve as the importance of this data increases under a competitive interconnection structure and technical solutions are developed.

We support the continued use of a direct-billing arrangement for transactions between IXC's and PPO's. In cases where SLEC's have no PPO's or very limited competitive payphone activity, the FCC should exempt these companies from formal FCC filing requirements. A certain number of PPO compensated calls should serve as a threshold for compliance identifying those LEC's that are required to make verification filings with the FCC. Specific identification of SLEC's whose service areas are not conducive to competition would also aid in the operation of the public interest payphone support program.

RECLASSIFICATION OF PAYPHONES

Current payphone cost recovery is based on jurisdictional separations principles which divide cost recovery based on usage and other allocations. Historically, this methodology has worked well for carrying out regulatory policies. Any change to the current system will change the operating considerations for SLEC's to provision payphones.

If incumbent LEC's are required to offer central office-based payphone services on an unbundled basis, the FCC must consider, as it has in earlier rulings, that implementing

central office coin services is technically much more complex than non-coin telephone service, and could be quite costly for SLECs. This is due primarily to the need to account for coins and ensure that completed calls are paid for, while calls which do not complete are not paid for by the caller. This operation requires a complex interworking of the coin telephone equipment, LEC central office, and operator service provider (OSP). The following table shows the various technical methods in which central office coin telephone services can be implemented²

<u>Coin Control</u>	<u>Access line signaling</u>	<u>OSP signaling</u>	<u>OSP coin deposit monitoring</u>
Prepay - Dial Tone First	+130V Collect -130V Return	Inband	Live Operator
Prepay - Coin First	-130V Collect +130V Return	Multiwink	Auto Coin Tel. Service
Semi-Postpay		Expanded Inband (EIS)	
Post pay			

This table is offered here to give appreciation for the level of technical complexity inherent in provision of central office implemented payphone service. If all components are not configured correctly, and are not compatible with each other, the central office-based payphone service will not operate properly. For example, if the LEC switch is configured to send +130 volts to collect coins, and the payphone equipment is configured

² BOC Notes on the LEC Networks - 1994(SR-TSV-002275) provides information on RBOC implementation. Some technologies that are widely used by small LECs, but not RBOCs, such as semi-postpay and postpay coin control, are not included in the BOC Notes document. Such information is based on GVNW's experience with SLECs.

to return coins when it receives a +130 volt signal, then the payphone will not function right.

Any option from any column in the table may usually be used with any option from any other column, except that there are many restrictions on combinations. For example, Semi-Postpay and Postpay coin control cannot be used with ACTS OSP Coin Deposit Monitoring. In the small switches used by SLECs, coin operation options can usually be applied only on a total switch basis, i.e. it is not possible to offer Prepay and Postpay coin control in the same switch. Each SLEC has configured its switches to operate with its own pay telephones and operator service provider (OSP)

The FCC must consider in any ruling that SLECs often do not implement coin services in the same manner as the BOCs, and that, while there may be standardization of operations within a BOC, there is not a standardized method of operation among SLECs.

Some "semi-smart" central office implemented payphone instruments have options that can be set to conform to the configuration of the switch and OSP. Thus, PPOs will not be excluded from competing in markets served by SLECs, and will not find it unduly burdensome to comply with the existing LEC technical methods of payphone implementation.

Due to the level of complexity involved, the FCC should order that SLECs are required to offer to PPOs only the same methods for implementation of pay telephone

service that the SLEC provides for itself, and that the SLEC is not required to offer a different type of pay telephone implementation to its PPO customers than it provides for its own pay telephones

The FCC must also be aware that, if a national technical standard is ordered for central-office implemented coin phone lines, the SLECs may be forced to add facilities to their networks only to accommodate PPOs. Such an increase in cost would not be justifiable from an economic standpoint. There would be added cost but no real value-added to the network.

The SLECs do not usually provide their own operator services, but contract with a large LEC (RBOC or GTOC) or with AT&T for operator services. The SLEC is not in a position to dictate to the OSP what methods of operation are required for a PPO. Thus, the FCC should require that the PPO obtain its own OSP arrangements and its own OSP contract, rather than requiring an SLEC that does not provide its own OSP to sub-contract OSP services to PPOs. Alternatively, if the SLEC is required to sub-contract OSP services to PPOs, then the PPO must accept the current arrangement between the SLEC and the OSP.

If a national standard is ordered for OSP operation with central office implemented coin phone lines, the SLECs may be forced to upgrade their networks only to accommodate PPOs. These costs would not otherwise be incurred.

Transfer of payphone equipment to unregulated status

Any advantage incumbent LECS have with respect to cost recovery for competitive payphone should be removed. Costs impacted by the transfer of payphone include investment, depreciation, maintenance and overheads. Removal of costs from access charges and adjusting price caps should be allowed to take place over a short transition period. Changes to the cost recovery for these investments will result in the elimination of some facilities in places where revenues cannot cover the payphone cost. This impact should be phased in. Absent cost support subsidies for the payphones owned by many LECs, the instruments will not be available.

The FCC's handling of public interest payphones may impact how payphones are unregulated. The subsidies required to encourage SLECs to deploy public interest payphones may be most efficiently implemented through a regulated mechanism. Certain qualification standards could be created for LECs to qualify for payphone support. In the case where a LEC qualifies for public benefit payphone support and then at some future time a PPO offers service in the area, the LEC would stop receiving support. We believe that if all payphones are simply transferred to unregulated accounts that a disruption in availability could occur, and the end user customer ends up frustrated, confused, and potentially underserved.

PUBLIC INTEREST PAYPHONES

Public interest payphones are required by the Act and are consistent with other parts of the act related to universal service and access to facilities. The FCC definition of

"public interest payphones" is adequate to cover a portion of what most SLECs and their customers consider to be payphones provided for the convenience and good of the public. The public interest definition may need to be expanded to include other considerations that may not be officially defined by a public body as a public policy objective, but are still necessary to serve the public interest.

Most SLECs provide payphones in local schools, public parks, public locations like municipal swimming pools and senior centers, and at strategic on-street locations. These are used by the public for emergency access to 911. These payphones are also used by the public for other, less obvious, but very necessary public interest functions. For example, payphones in schools are used by students to call parents to pick up the students from after school activities such as sports or band practice. This is a very real public benefit in rural areas where the school district can often not afford to run late "activity" busses, no public transportation exists, and long distances make it difficult and unsafe for students to walk home in late evenings. The school district often cannot afford to provide its own payphone. Payphones in public parks provide similar functions when sports events are held in the evening or at night. Payphones in public parks are often subject to high rates of vandalism. Usually, little or no toll is originated from these payphones, so no PPO has shown interest in serving schools or parks in most rural areas. If the local LEC does not provide these payphones, the service will not be provided to the public at all.

In several studies done by SLECs, such "public interest" payphones as discussed in the preceding paragraph are consistently not profitable. In many areas, large LECs have

removed these types of payphones if school districts or local governments did not agree to pay to have these phones kept in place. SLECs and GVNW feel such actions are not in the public interest. The FCC should define public interest payphones, and provide adequate compensation for these facilities such that SLECs will not have incentive to discontinue operation of these payphones in the competitive payphone environment.

OTHER ISSUES

Dialing parity has not been accomplished for intraLATA calling in all states. States should be given the discretion to determine when and under what regulations dialing parity will be achieved for the industry and payphones. Customer confusion can be reduced by allowing states some flexibility in accomplishing this goal of the 1996 Act. Dialing parity is difficult due to the number of technical issues and different network capabilities in place today. Again, GVNW and SLECs would urge that rules and implementation schedules not produce unreasonable requirements or costs.

Letterless keypads should not be allowed as they would add to customer confusion and not promote the advancement of competition. Payphone operations should be consistent in terms of customer interface with the terminal equipment. Public payphones should be functionally equivalent throughout the network. Letterless keypads are not in the competitive public interest required by the Act.

Prevention of customer confusion, frustration and abuse should be a secondary goal of this docket. The issues being considered are those that have developed at the front lines of telecommunications competition. One result of introducing competition into various segments of the industry has been uncertainty on the part of customers as to what services they are buying and how much the service costs. Any regulations directing payphone competition should be "user-friendly" for customers. Fair compensation, fair competition and fair availability of services must be balanced with the rules for the payphone business and are at the heart of the policy considerations required by the 1996 Act.

CONCLUSION

The advancement and promotion of competition is the overriding theme in telecommunications policy today. Public interest payphones will not be provided in all parts of the country under a competitive paradigm. The segment of the industry which will lose the social benefits of broadly available payphones under the competitive model requires a defined program for public interest payphone deployment and cost recovery. That program should operate for those LECs which need subsidy dollars for provisioning public interest payphones.

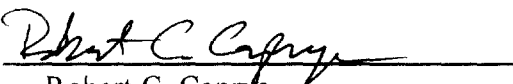
The overall goal of promoting payphone services competition unfortunately does not change the basic nature of the telecommunications markets served by many SLECs. Competition in some markets will develop very slowly or not at all. The rules designed

under this proceeding should recognize that these differing conditions exist and provide the means by which LECs can continue to provide payphone services to customers at reasonable rates.

For the reasons discussed, the FCC should adopt a program for ensuring a standard availability for public interest payphones, create flexible rules for interconnection of PPOs recognizing that certain technical difficulties may be inherent with that process, and, recognizing that customer confusion and frustration has resulted in the past in the payphone service arena, create rules which work to limit problems encountered by customers.

Respectfully submitted,

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Dated: July 1, 1996